

**Blacksmith Institute, Inc. D/B/A Pure Earth and  
Consolidated Entities**

Consolidated Financial Statements

December 31, 2022 and 2021

## **Independent Auditors' Report**

### **Board of Directors of Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

#### **Opinion**

We have audited the accompanying consolidated financial statements of Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities (collectively, the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2022 and 2021, and the consolidated changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Change in Accounting Policy**

As discussed in Note 2 to the consolidated financial statements, the Organization adopted Financial Accounting Standards Board ("FASB") Topic 842, *Leases*, which resulted in the recognition of a right of use asset and related lease liability, effective January 1, 2022. Our opinion is not modified with respect to that matter.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

**Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the 2022 and 2021 consolidating schedules of financial position and consolidating schedules of activities on pages 20 to 23 are presented for purposes of additional analysis of the consolidated financial statements rather than present the financial position and changes in net assets of the individual companies and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*PKF O'Connor Davies, LLP*

September 28, 2023

**Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Consolidated Statements of Financial Position

	December 31	
	<u>2022</u>	<u>2021</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 7,225,471	\$ 6,811,579
Grants receivable	1,459,830	4,832,356
Pledges receivable	200,000	73,167
Other receivable	319,718	-
Prepaid expenses and other current assets	<u>525,002</u>	<u>577,947</u>
Total Current Assets	9,730,021	12,295,049
Grants receivable - non-current, net	5,038,601	799,994
Pledges receivable - non-current, net	91,860	80,000
Property and equipment, net	409,186	416,628
Right of use asset, net	356,250	-
Security deposit	<u>27,486</u>	<u>26,253</u>
	<u>\$ 15,653,404</u>	<u>\$ 13,617,924</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 253,261	\$ 255,333
Accrued expenses and other payables	353,106	228,148
Lease liabilities - current	<u>173,851</u>	<u>-</u>
Total Current Liabilities	780,218	483,481
Lease liabilities - non-current	<u>166,869</u>	<u>-</u>
Total Liabilities	<u>947,087</u>	<u>483,481</u>
Net Assets		
Without donor restrictions	1,514,059	494,326
With donor restrictions	<u>13,192,258</u>	<u>12,640,117</u>
Total Net Assets	<u>14,706,317</u>	<u>13,134,443</u>
	<u>\$ 15,653,404</u>	<u>\$ 13,617,924</u>

See notes to consolidated financial statements

**Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Consolidated Statements of Activities

	Year Ended December 31, 2022			Year Ended December 31, 2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND SUPPORT</b>						
Grants	\$ -	\$ 8,088,821	\$ 8,088,821	\$ -	\$ 9,697,573	\$ 9,697,573
Contributions	308,610	505,793	814,403	415,327	19,060	434,387
Fundraising income, net of cost of direct benefit to donors of \$108,704 and \$0	422,975	-	422,975	457,343	-	457,343
In-kind contributions	266,112	-	266,112	232,383	-	232,383
Net assets released from restrictions	8,042,473	(8,042,473)	-	5,696,123	(5,696,123)	-
Total Revenue and Support	<u>9,040,170</u>	<u>552,141</u>	<u>9,592,311</u>	<u>6,801,176</u>	<u>4,020,510</u>	<u>10,821,686</u>
<b>OPERATING EXPENSES</b>						
Program	6,938,581	-	6,938,581	4,845,063	-	4,845,063
Administration	937,431	-	937,431	1,039,563	-	1,039,563
Fundraising	528,302	-	528,302	646,006	-	646,006
Total Operating Expenses	<u>8,404,314</u>	<u>-</u>	<u>8,404,314</u>	<u>6,530,632</u>	<u>-</u>	<u>6,530,632</u>
Excess of Revenue and Support over Operating Expenses	635,856	552,141	1,187,997	270,544	4,020,510	4,291,054
<b>NONOPERATING ACTIVITIES</b>						
Employee Retention Credit	319,718	-	319,718	-	-	-
Other income	23,900	-	23,900	11,467	-	11,467
Foreign currency translation adjustment	40,259	-	40,259	(10,612)	-	(10,612)
Change in Net Assets	1,019,733	552,141	1,571,874	271,399	4,020,510	4,291,909
<b>NET ASSETS</b>						
Beginning of year	<u>494,326</u>	<u>12,640,117</u>	<u>13,134,443</u>	<u>222,927</u>	<u>8,619,607</u>	<u>8,842,534</u>
End of year	<u>\$ 1,514,059</u>	<u>\$ 13,192,258</u>	<u>\$ 14,706,317</u>	<u>\$ 494,326</u>	<u>\$ 12,640,117</u>	<u>\$ 13,134,443</u>

See notes to consolidated financial statements

**Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Consolidated Statement of Functional Expenses  
Year Ended December 31, 2022

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 2,265,731	\$ 200,982	\$ 293,544	\$ 2,760,257
Professional fees	2,398,843	188,722	9,282	2,596,847
In-kind communication fees	-	-	200,000	200,000
In-kind professional fees	56,150	-	-	56,150
Travel	347,263	20,278	8,546	376,087
Events and conferences	158,577	190	109,419	268,186
Rent and utilities	56,935	163,496	-	220,431
Small equipment	146,937	48,150	448	195,535
Depreciation expense	-	118,003	-	118,003
Supplies	28,595	5,623	997	35,215
Lab fees	436,971	-	-	436,971
Communications	35,762	15,871	3,902	55,535
Insurance	-	39,618	-	39,618
Bank fees	11,433	21,138	10,868	43,439
Bad debts	-	115,360	-	115,360
Subgrant expenses	<u>995,384</u>	<u>-</u>	<u>-</u>	<u>995,384</u>
 Total Expenses	 6,938,581	 937,431	 637,006	 8,513,018
Less cost of direct benefit to donors	<u>-</u>	<u>-</u>	<u>(108,704)</u>	<u>(108,704)</u>
 Total Expenses Reported by				
Function on Statement of Activities	<u>\$ 6,938,581</u>	<u>\$ 937,431</u>	<u>\$ 528,302</u>	<u>\$ 8,404,314</u>

See notes to consolidated financial statements

**Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Consolidated Statement of Functional Expenses  
Year Ended December 31, 2021

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 2,017,733	\$ 162,995	\$ 262,520	\$ 2,443,248
Professional fees	1,904,177	318,699	17,615	2,240,491
In-kind communication fees	-	-	214,114	214,114
Travel	134,123	13,338	5,666	153,127
Events and conferences	67,369	1,595	129,320	198,284
Rent and utilities	68,787	172,970	-	241,757
Small equipment	57,375	46,892	931	105,198
Depreciation expense	-	97,895	-	97,895
Supplies	173,359	2,770	761	176,890
Lab fees	65,138	-	-	65,138
Communications	44,607	23,840	1,194	69,641
Printed material	8,773	307	-	9,080
Insurance	829	28,615	-	29,444
Bank fees	8,074	9,051	13,885	31,010
Bad debts	38,412	160,596	-	199,008
Subgrant expenses	<u>256,307</u>	<u>-</u>	<u>-</u>	<u>256,307</u>
 Total Expenses	 <u>\$ 4,845,063</u>	 <u>\$ 1,039,563</u>	 <u>\$ 646,006</u>	 <u>\$ 6,530,632</u>

See notes to consolidated financial statements



**Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Consolidated Statement of Cash Flows

	Year Ended December 31	
	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,571,874	\$ 4,291,909
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	118,003	97,895
Discount on grants receivable	438,526	-
Discount on pledges receivable	8,140	-
Amortization of right of use asset	192,388	-
Change in operating assets and liabilities		
Grants receivable	(1,304,607)	1,784,848
Pledges receivable	(146,833)	90,417
Other receivable	(319,718)	-
Prepaid expenses and other current assets	52,945	253,804
Security deposit	(1,233)	(1,253)
Accounts payable	(2,072)	(522,186)
Accrued expenses and other payables	124,958	77,170
Lease liabilities	<u>(207,918)</u>	<u>-</u>
Net Cash from Operating Activities	<u>524,453</u>	<u>6,072,604</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(110,561)</u>	<u>(160,903)</u>
Net Change in Cash and Cash Equivalents	413,892	5,911,701
 <b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>6,811,579</u>	<u>899,878</u>
 End of year	<u>\$ 7,225,471</u>	<u>\$ 6,811,579</u>

See notes to consolidated financial statements

## **Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

### **1. Organization and Tax Status**

Blacksmith Institute, Inc. (the “Institute” or “Blacksmith”) is a not-for-profit organization incorporated in the State of New York on July 29, 1999 under Section 501(c)(3) of the Internal Revenue Code, Blacksmith Initiative (UK) (the “Initiative”), is a private, limited charity incorporated in the United Kingdom, Blacksmith Civil Institute of Mexico (“Mexico Initiative”) is a private, limited charity incorporated in Mexico, and Blacksmith Initiative (Ireland) (the “Ireland Initiative”), is a company limited by guarantee incorporated in Ireland, was established as a secondary entity in the European region, (collectively, referred to as the “Organization”), which serves the global community by providing funding and services to support developing nations with pollution-related environmental issues in an attempt to ensure a clean and hospitable planet for future generations. Blacksmith Institute Environmental Non-Governmental Organization (“Armenia Initiative”) is a private, limited charity incorporated in Armenia which was discontinued in 2020.

The Organization also maintains branches who use the Blacksmith Institute, Blacksmith Initiative or Pure Earth name and branding located in Ghana, Philippines, India and Indonesia that act to expand the Organization’s programs.

The Organization shares a common board of directors with the branch offices and their efforts in serving the global community are inextricably intertwined and funding is pursued on a collaborative basis. The Initiatives were established largely to expand the global footprint from which the Organization can pursue such funding.

Effective November 1, 2013, the Institute launched a new initiative – Pure Earth. Pure Earth is an outreach and awareness raising program for the general public. Blacksmith has registered Pure Earth as a trademark and operates under that name.

### **2. Summary of Significant Accounting Policies**

#### ***Basis of Consolidation***

The accompanying consolidated financial statements include the accounts of the Institute, Inc., the Initiative, the Mexico Initiative, and the Ireland Initiative. The consolidated financial statements include all adjustments and reclassifications necessary to eliminate the effects of significant intercompany accounts and transactions.

#### ***Basis of Presentation and Use of Estimates***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

## **Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

### **2. Summary of Significant Accounting Policies (continued)**

#### ***Change in Accounting Policy***

##### *Leases*

The Organization adopted Financial Accounting Standards Board ("FASB") Topic 842, *Leases*, using the effective date method with January 1, 2022, as the date of initial adoption. In adopting Topic 842, the Organization elected to use the modified retrospective transition method, which applies the provisions of the standard at the effective date without any adjustment to the comparative periods presented. The Organization adopted the following practical expedients and elected the following accounting policies related to this standard: Carry forward of historical lease classifications and accounting treatment. Accordingly, the Organization will recognize lease payments on a straight-line basis over the lease term and variable payments in the period when the corresponding obligation is incurred.

As a result of the adoption of the new lease accounting guidance, on January 1, 2022, the Organization recognized a lease liability of \$548,638, that represents the present value of the remaining operating lease payments of \$556,394, discounted using the normalized risk-free interest rate of 1.03% and a right-of-use asset of \$548,638.

Adoption of the standard had a material impact on the Organization's consolidated statement of financial position but did not have an impact on its consolidated statements of activities and cash flows. The most significant impact was the recognition of the right-of-use asset and lease liability for operating leases.

#### ***Cash and Cash Equivalents***

The Organization considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents.

#### ***Grants and Pledges Receivable***

The Organization's revenue related to pledges and grants received is recognized as revenue in the period received at its fair value and the Organization distinguishes such contributions and grants received for each net asset category in accordance with donor-imposed restrictions. Pledges and grants receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on these amounts were computed using the risk adjusted interest rates applicable to the year in which contribution or grant is made. Amortization of discount is included in contribution or grant revenue.

These receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding, after management has used reasonable collection efforts, are written off through a charge to the valuation allowance and a credit to receivables.

At December 31, 2022 and 2021, the Organization had no allowance recognized in relation to grants and pledges receivable.

## **Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

### **2. Summary of Significant Accounting Policies (continued)**

#### ***Property and Equipment***

Property and equipment is stated at cost less accumulated depreciation. Maintenance and repairs of a routine nature are charged to expense while those that extend the life of existing properties are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets generally from 3 to 10 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful lives of the assets or the term of the lease. The cost of property and equipment purchased in excess of \$1,000 is capitalized.

Property and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount of the asset is not recoverable, the value is written down to the asset's fair value. There were no asset impairments for the years ended December 31, 2022 and 2021.

#### ***Net Asset Presentation***

Net assets without donor restrictions are available for use at the discretion of the Board of Directors (the "Board") and/or management for program and general operating expenses.

Net assets with donor restrictions are subject to donor-imposed stipulations that will be met by actions of the Organization, or passage of time.

The Organization reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use or time of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends, or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported on the consolidated statement of activities as net assets released from restrictions.

#### ***Operating Measure***

The operating measure in the consolidated statement of activities is identified as excess (deficit) of revenue and support over operating expenses. Changes in net assets which are excluded from the operating measure include foreign currency translation, other income and the Employee Retention Credit.

#### ***Revenue Recognition***

In the absence of donor restrictions, fundraising income is considered to be available for general use and is recognized in the period received. When revenue is earned over a period that spans the year end, it is recognized in the applicable period in which it is earned. Fees for service revenue is reported when services are provided. Deferred revenue are funds received in advance and not yet earned. Based on strong collection experience, the Organization has concluded that all revenue recognized is probable of collection. At January 1, 2021, there was no contract assets or liabilities.

## Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities

Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

### 2. Summary of Significant Accounting Policies *(continued)*

#### **Contributions and Grants**

Contributions and grants received are recorded as without donor restriction or with donor restriction depending on the existence of any donor restrictions. Support that is not restricted by the donor is reported as an increase in without donor restriction net assets. All other donor restricted support is reported as an increase in with donor restriction net assets. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), with donor restriction net assets are reclassified to without donor restriction net assets and reported in the consolidated statement of activities as net assets released from restrictions.

#### **Donated Services**

The Organization records contributions and corresponding expense for donated space and equipment, professional expense, salaries, pollution-related program expense, office expense and telephone. The amount recorded is the estimated fair value of the donated items.

In-kind contributions for the years ended December 31, 2022 and 2021 consist of the following:

	2022	2021	Utilization in Programs/ Activities	Donor Restriction	Valuation Techniques and Inputs
In-kind communication fees	\$ 200,000	\$ 214,114	Fundraising	None	In-kind communication fees are valued at the estimated fair value based on current rates for similar communication services.
In-kind professional fees	56,150	-	Program	None	In-kind professional fees are valued at the estimated fair value based on current rates for similar professional services.
In-kind auctioned items	9,962	18,269	Fundraising	None	In-kind jewelry items are valued at the estimated fair value based on current market price of similar jewelry.
	<u>\$ 266,112</u>	<u>\$ 232,383</u>			

#### **Functional Allocation of Expenses**

Directly identifiable expenses are charged to programs, administration and fundraising. Expenses related to more than one function are charged to programs, supporting services and fundraising on the basis of periodic time and expense studies. Administration expenses include those expenses that are not directly identifiable with any other specific function but provided for the overall support and direction of the Organization. The cost of providing program services and other activities have been summarized on a functional basis in the consolidated statements of activities.

## **Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

### **2. Summary of Significant Accounting Policies *(continued)***

#### ***Foreign Currency Translation***

The Initiative's functional currency is Great British Pounds ("GBP"). Mexico Initiative's functional currency is the Mexican Peso. The Ireland Initiative's functional currency is the Euro. The financial statements of the Initiative, the Mexico Initiative and the Ireland Initiative have been translated into U.S. dollars upon consolidation with the Institute. All statements of financial position accounts have been translated using the exchange rate in effect at the consolidated statement of financial position dates. Statements of activities amounts have been translated using the monthly average exchange rates during the year and have been reported separately in the consolidated statement of activities.

#### ***Accounting for Uncertainty in Income Taxes***

The Institute recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Institute had no uncertain tax positions that would require financial statement recognition or disclosure. The Institute is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to 2019.

The Initiative is a private charity that is limited and incorporated under the Companies Act 1985 of the Registrar of Companies for England and Wales.

The Mexico Initiative is a not-for-profit in compliance with article 79 of the Income Tax Law and is listed on the Annex 14 of the Fiscal Miscellaneous Resolution in the Federation Official Diary authorizing status as a "donataria".

The Ireland Initiative is a company limited by guarantee – charity and incorporated under the Companies Act 2014 of the Companies Registration Office of the Government of Ireland.

#### ***Leases***

As of January 1, 2022, the Organization leases office space and determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets ("ROU assets") and operating lease liabilities on the accompanying consolidated statement of financial position.

## **Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

### **2. Summary of Significant Accounting Policies (continued)**

#### ***Leases (continued)***

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. When leases do not provide an implicit borrowing rate, the Organization uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease. When it is reasonably certain that the Organization will exercise that option, such amounts are included in ROU assets and lease liabilities. Lease expense for the lease payments is recognized on a straight-line basis of the lease term.

The Organization's lease agreement does not contain any material residual value guarantees or material restrictive covenants.

#### ***Reclassification***

Certain information contained in the 2021 consolidated financial statements has been reclassified to conform with the 2022 presentation with no effect on operations.

#### ***Subsequent Events Evaluation by Management***

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through the date that the consolidated financial statements were available to be issued, which is September 28, 2023.

### **3. Concentration of Credit Risk**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and grants receivable. The Organization maintains its cash and cash equivalents with high-credit-quality financial institutions and the balances of which, from time to time, may exceed federal insurance limits. As of December 31, 2022, the Organization's cash and cash equivalent balances on deposit exceeded the federal insurance limits and other foreign insurance limits by approximately \$6,600,000.

A concentration of credit risk existed with respect to grants since amounts received from one donor represented 76% and 74% of total revenue and support for 2022 and 2021 and one donor represented 84% and 51% of total grants receivable balance at December 31, 2022 and 2021.

## Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities

Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

### 4. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the consolidated statement of financial position date, are comprised of the following at December 31:

	<u>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash and cash equivalents	\$ 7,225,471	\$ 6,811,579
Grants receivable	1,459,830	4,832,356
Pledges receivable	200,000	73,167
Other receivable	319,718	-
Total Financial Assets	<u>9,205,019</u>	<u>11,717,102</u>
Less amounts unavailable for general expenditure:		
Donor imposed restrictions by purpose	8,061,797	11,760,123
Grant advances to satisfy donor imposed restrictions	<u>(341,794)</u>	<u>(228,183)</u>
	<u>7,720,003</u>	<u>11,531,940</u>
Financial Assets at Year-End Available to Meet Cash		
Needs for General Expenditure Within One Year	<u>\$ 1,485,016</u>	<u>\$ 185,162</u>

As part of the Organization's liquidity strategy, management structures its financial assets, consisting of cash and receivables to be available as its general expenditures, liabilities and obligations come due within one year. The Organization receives cash flow from grants and contributions made from donors through its fundraising efforts.

### 5. Grants Receivable

The Organization has the grants receivable from the following sources at December 31:

	<u>2022</u>	<u>2021</u>
Grants receivable		
Foundations	\$ 6,362,191	\$ 5,013,686
United Nations	-	268,698
US Department of State	136,240	132,893
USAID	-	217,073
	<u>\$ 6,498,431</u>	<u>\$ 5,632,350</u>



**Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

**5. Grants Receivable (continued)**

Organization's grants receivable at December 31, 2022 and 2021 are due as follows:

Due within		
Less than one year	\$ 1,459,830	\$ 4,832,356
One to five years	<u>5,477,127</u>	<u>799,994</u>
	6,936,957	5,632,350
Discount to present value	<u>(438,526)</u>	<u>-</u>
	<u>\$ 6,498,431</u>	<u>\$ 5,632,350</u>

During 2022, the present value of grants receivable was discounted using the applicable rate of 3.49%. Management believes that the grants receivables are fully collectible and no allowance for doubtful accounts has been established.

**6. Pledges Receivable**

The Organization's pledges receivable at December 31, 2022 and 2021 are due as follows:

	<u>2022</u>	<u>2021</u>
Due within		
Less than one year	\$ 200,000	\$ 73,167
One to five years	<u>100,000</u>	<u>80,000</u>
	300,000	153,167
Discount to present value	<u>(8,140)</u>	<u>-</u>
	<u>\$ 291,860</u>	<u>\$ 153,167</u>

During 2022, the present value of pledges receivable was discounted using the applicable rate of 3.15%. Management believes that the pledges receivables are fully collectible and no allowance for doubtful accounts has been established.

## Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities

Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

### 7. Property and Equipment

Property and equipment consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 753,966	\$ 753,966
Equipment	393,351	284,805
Furniture, fixtures and equipment	92,556	92,556
Software	<u>50,376</u>	<u>48,361</u>
	1,290,249	1,179,688
Accumulated depreciation	<u>(881,063)</u>	<u>(763,060)</u>
	<u>\$ 409,186</u>	<u>\$ 416,628</u>

Depreciation expense for the years ended December 31, 2022 and 2021 was \$118,003 and \$97,895, respectively.

### 8. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of funds used to provide funding and services to support developing nations with pollution-related environmental issues in an attempt to ensure a clean and hospitable planet for future generations. During the years ended December 31, 2022 and 2021, the Organization received donor restricted grants and contributions amounting to \$8,594,614 and \$9,716,633, respectively. Net assets were released from donors' restrictions as of December 31, 2022 and 2021 amounting to \$8,042,473 and \$5,696,123, respectively, as related program expenses are incurred by the Organization.

### 9. Lease Commitments

#### *Operating Lease*

The Organization has a lease arrangement for an office facility for a term of 10 years that commenced on January 1, 2015. Annual rental for each year end will be an amount equal to the Organization's proportionate share based on square footage of the landlord's total costs of ownership.

The Organization also has a lease arrangement for an office facility in Ghana for a term of 3 years that commenced on November 1, 2020.

Rent expense under the operating leases was \$196,791 and \$167,666 for the years ended December 31, 2022 and 2021, respectively, and is included within rent and utilities in the consolidated statement of functional expenses.

**Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

**9. Lease Commitments (continued)**

**Operating Lease (continued)**

ROU asset and corresponding liability associated with future lease payments on the above lease as of December 31, 2022 are shown below:

Right-of-use asset	\$ 356,250
Lease liability	\$ 340,720
Weighted Average:	
Discount rate	1.03%
Remaining lease term in years	1.97

ROU asset is net of \$192,388 accumulated amortization at December 31, 2022.

Future minimum rental payments under the lease arrangement are as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 176,393
2024	<u>167,666</u>
Total Future Minimum Lease Payments	344,059
Less Imputed Interest	<u>(3,339)</u>
Total Operating Lease Liability	<u>\$ 340,720</u>

Supplemental cash flow information related to operating leases was as follow for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of operating lease liabilities	\$ 191,356
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## **Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Notes to Consolidated Financial Statements  
December 31, 2022 and 2021

### **10. Employee Retention Credit**

During the year ended December 31, 2022, the Organization qualified for the Employee Retention Credit (“ERC”) which is a refundable payroll tax credit for employers who had operations fully or partially suspended due to orders from a governmental authority or whose revenues decreased by a specified threshold. When eligible, an entity can claim a refund in excess of the payroll taxes paid based upon the amount of qualified wages and health insurance paid. Because the amount of the credit is in excess of the payroll taxes paid, the ERC is considered a conditional government grant. Accordingly, the Organization has elected to follow the guidance in Accounting Standards Codification 958-605 in which conditional government grants are recognized in income as conditions are met. The full credit of \$319,718 was recognized during the year ended December 31, 2022 and is included in non-operating activities in the consolidated statement of activities.

### **11. Risk and Uncertainties**

The Organization’s operations and financial performance has been, and may continue to be, affected by global and domestic economic uncertainty which has adversely affected economic conditions throughout the world. The Organization may experience a decline in revenue activities as a result of the economic uncertainty.

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**Blacksmith Institute, Inc. d/b/a Pure Earth and  
Consolidated Entities**

Supplementary Information  
December 31, 2022 and 2021

**Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Consolidating Schedule of Financial Position  
December 31, 2022

	Blacksmith Institute, Inc.	Blacksmith Initiative UK	Blacksmith Initiative Mexico	Blacksmith Initiative Ireland	Total	Eliminations	Consolidated
<b>ASSETS</b>							
Current Assets							
Cash and cash equivalents	\$ 7,077,336	\$ 75,551	\$ 72,584	\$ -	\$ 7,225,471	\$ -	\$ 7,225,471
Grants receivable	1,458,116	-	1,714	-	1,459,830	-	1,459,830
Pledges receivable	200,000	-	-	-	200,000	-	200,000
Other receivable	319,718	-	-	-	319,718	-	319,718
Due from affiliate	2,037,453	14,838	-	-	2,052,291	(2,052,291)	-
Prepaid expenses and other current assets	521,159	-	3,843	-	525,002	-	525,002
Total Current Assets	11,613,782	90,389	78,141	-	11,782,312	(2,052,291)	9,730,021
Grants receivable - non-current, net	5,038,601	-	-	-	5,038,601	-	5,038,601
Pledges receivable - non-current, net	91,860	-	-	-	91,860	-	91,860
Property and equipment, net	409,186	-	-	-	409,186	-	409,186
Right of use asset, net	356,250	-	-	-	356,250	-	356,250
Security deposit	27,486	-	-	-	27,486	-	27,486
	<u>\$ 17,537,165</u>	<u>\$ 90,389</u>	<u>\$ 78,141</u>	<u>\$ -</u>	<u>\$ 17,705,695</u>	<u>\$ (2,052,291)</u>	<u>\$ 15,653,404</u>
<b>LIABILITIES AND NET ASSETS</b>							
Current Liabilities							
Accounts payable	\$ 252,352	\$ -	\$ 909	\$ -	\$ 253,261	\$ -	\$ 253,261
Accrued expenses and other payables	353,106	-	-	-	353,106	-	353,106
Due to affiliate	-	-	2,048,585	3,706	2,052,291	(2,052,291)	-
Lease liabilities - current	173,851	-	-	-	173,851	-	173,851
Total Current Liabilities	779,309	-	2,049,494	3,706	2,832,509	(2,052,291)	780,218
Lease liabilities - non-current	166,869	-	-	-	166,869	-	166,869
Total Liabilities	946,178	-	2,049,494	3,706	2,999,378	(2,052,291)	947,087
Net Assets							
Without donor restrictions	3,395,023	90,389	(1,971,353)	-	1,514,059	-	1,514,059
With donor restrictions	13,195,964	-	-	(3,706)	13,192,258	-	13,192,258
Total Net Assets	16,590,987	90,389	(1,971,353)	(3,706)	14,706,317	-	14,706,317
	<u>\$ 17,537,165</u>	<u>\$ 90,389</u>	<u>\$ 78,141</u>	<u>\$ -</u>	<u>\$ 17,705,695</u>	<u>\$ (2,052,291)</u>	<u>\$ 15,653,404</u>

See independent auditors' report

**Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Consolidating Schedule of Financial Position  
December 31, 2021

	<u>Blacksmith Institute, Inc.</u>	<u>Blacksmith Initiative UK</u>	<u>Blacksmith Initiative Mexico</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>						
Current Assets						
Cash and cash equivalents	\$ 6,755,127	\$ 8,356	\$ 48,096	\$ 6,811,579	\$ -	\$ 6,811,579
Grants receivable	4,754,891	77,465	-	4,832,356	-	4,832,356
Pledges receivable	73,167	-	-	73,167	-	73,167
Due from affiliate	38,756	20,054	-	58,810	(58,810)	-
Prepaid expenses and other current assets	<u>577,738</u>	<u>209</u>	<u>-</u>	<u>577,947</u>	<u>-</u>	<u>577,947</u>
Total Current Assets	12,199,679	106,084	48,096	12,353,859	(58,810)	12,295,049
Grants receivable - non-current	799,994	-	-	799,994	-	799,994
Pledges receivable - non-current	80,000	-	-	80,000	-	80,000
Property and equipment, net	416,628	-	-	416,628	-	416,628
Security deposit	<u>26,253</u>	<u>-</u>	<u>-</u>	<u>26,253</u>	<u>-</u>	<u>26,253</u>
	<u>\$ 13,522,554</u>	<u>\$ 106,084</u>	<u>\$ 48,096</u>	<u>\$ 13,676,734</u>	<u>\$ (58,810)</u>	<u>\$ 13,617,924</u>
<b>LIABILITIES AND NET ASSETS</b>						
Current Liabilities						
Accounts payable	\$ 255,333	\$ -	\$ -	\$ 255,333	\$ -	\$ 255,333
Accrued expenses and other payables	222,212	5,936	-	228,148	-	228,148
Due to affiliate	<u>-</u>	<u>-</u>	<u>58,810</u>	<u>58,810</u>	<u>(58,810)</u>	<u>-</u>
Total Current Liabilities	<u>477,545</u>	<u>5,936</u>	<u>58,810</u>	<u>542,291</u>	<u>(58,810)</u>	<u>483,481</u>
Net Assets						
Without donor restrictions	404,892	100,148	(10,714)	494,326	-	494,326
With donor restrictions	<u>12,640,117</u>	<u>-</u>	<u>-</u>	<u>12,640,117</u>	<u>-</u>	<u>12,640,117</u>
Total Net Assets	<u>13,045,009</u>	<u>100,148</u>	<u>(10,714)</u>	<u>13,134,443</u>	<u>-</u>	<u>13,134,443</u>
	<u>\$ 13,522,554</u>	<u>\$ 106,084</u>	<u>\$ 48,096</u>	<u>\$ 13,676,734</u>	<u>\$ (58,810)</u>	<u>\$ 13,617,924</u>

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## Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities

### Consolidating Schedule of Activities Year Ended December 31, 2022

	Blacksmith Institute, Inc.	Blacksmith Initiative UK	Blacksmith Initiative Mexico	Blacksmith Initiative Ireland	Total	Eliminations	Consolidated
<b>REVENUE AND SUPPORT</b>							
Grants	\$ 8,067,967	\$ -	\$ 20,854	\$ -	\$ 8,088,821	\$ -	\$ 8,088,821
Contributions	800,349	14	14,040	-	814,403	-	814,403
Fundraising income, net of cost of direct benefit to donors of \$108,704	422,574	-	401	-	422,975	-	422,975
In-kind contributions	266,112	-	-	-	266,112	-	266,112
Total Revenue and Support	<u>9,557,002</u>	<u>14</u>	<u>35,295</u>	<u>-</u>	<u>9,592,311</u>	<u>-</u>	<u>9,592,311</u>
<b>OPERATING EXPENSES</b>							
Program	4,949,033	-	1,989,548	-	6,938,581	-	6,938,581
Administration	932,438	1,344	-	3,649	937,431	-	937,431
Fundraising	528,302	-	-	-	528,302	-	528,302
Total Operating Expenses	<u>6,409,773</u>	<u>1,344</u>	<u>1,989,548</u>	<u>3,649</u>	<u>8,404,314</u>	<u>-</u>	<u>8,404,314</u>
Excess (Deficit) of Revenue and Support over Operating Expenses	3,147,229	(1,330)	(1,954,253)	(3,649)	1,187,997	-	1,187,997
<b>NONOPERATING ACTIVITIES</b>							
Employee Retention Credit	319,718	-	-	-	319,718	-	319,718
Other income	22,176	-	1,724	-	23,900	-	23,900
Foreign currency translation adjustment	56,855	(8,429)	(8,110)	(57)	40,259	-	40,259
Change in Net Assets	3,545,978	(9,759)	(1,960,639)	(3,706)	1,571,874	-	1,571,874
<b>NET ASSETS</b>							
Beginning of year	<u>13,045,009</u>	<u>100,148</u>	<u>(10,714)</u>	<u>-</u>	<u>13,134,443</u>	<u>-</u>	<u>13,134,443</u>
End of year	<u>\$ 16,590,987</u>	<u>\$ 90,389</u>	<u>\$ (1,971,353)</u>	<u>\$ (3,706)</u>	<u>\$ 14,706,317</u>	<u>\$ -</u>	<u>\$ 14,706,317</u>

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**Blacksmith Institute, Inc. d/b/a Pure Earth and Consolidated Entities**

Consolidating Schedule of Activities  
Year Ended December 31, 2021

	<u>Blacksmith Institute, Inc.</u>	<u>Blacksmith Initiative UK</u>	<u>Blacksmith Initiative Mexico</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>REVENUE AND SUPPORT</b>						
Grants	\$ 9,697,573	\$ -	\$ -	\$ 9,697,573	\$ -	\$ 9,697,573
Contributions	433,643	-	744	434,387	-	434,387
Fundraising income	457,343	-	-	457,343	-	457,343
In-kind contributions	<u>232,383</u>	<u>-</u>	<u>-</u>	<u>232,383</u>	<u>-</u>	<u>232,383</u>
Total Revenue and Support	<u>10,820,942</u>	<u>-</u>	<u>744</u>	<u>10,821,686</u>	<u>-</u>	<u>10,821,686</u>
<b>OPERATING EXPENSES</b>						
Program	4,789,405	-	55,658	4,845,063	-	4,845,063
Administration	993,435	46,128	-	1,039,563	-	1,039,563
Fundraising	<u>646,006</u>	<u>-</u>	<u>-</u>	<u>646,006</u>	<u>-</u>	<u>646,006</u>
Total Operating Expenses	<u>6,428,846</u>	<u>46,128</u>	<u>55,658</u>	<u>6,530,632</u>	<u>-</u>	<u>6,530,632</u>
Excess (Deficit) of Revenue and Support over Operating Expenses	4,392,096	(46,128)	(54,914)	4,291,054	-	4,291,054
<b>NONOPERATING ACTIVITIES</b>						
Other income	798	6,257	4,412	11,467	-	11,467
Foreign currency translation adjustment	<u>(10,220)</u>	<u>(141)</u>	<u>(251)</u>	<u>(10,612)</u>	<u>-</u>	<u>(10,612)</u>
Change in Net Assets	4,382,674	(40,012)	(50,753)	4,291,909	-	4,291,909
<b>NET ASSETS</b>						
Beginning of year	<u>8,662,335</u>	<u>140,160</u>	<u>40,039</u>	<u>8,842,534</u>	<u>-</u>	<u>8,842,534</u>
End of year	<u>\$ 13,045,009</u>	<u>\$ 100,148</u>	<u>\$ (10,714)</u>	<u>\$ 13,134,443</u>	<u>\$ -</u>	<u>\$ 13,134,443</u>

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